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SUBJECT: IRAN REGIONAL PRESENCE OFFICE DUBAI: WINDOW ON IRAN - MAY 6,
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REASON: 1.4 (b), (d)

11. (S/NF) Election Update - Let's Make a Deal: During a May 5
meeting with IRPO Officers, a Tehran-based businessman who
travels regularly to Dubai detailed several important
backstories for the upcoming presidential elections. (This
contact is a former IRGC officer who was based in Khuzestan
during the Iran-Iraq war and who then went on to serve as a
senior official at the Bonyad-e Shahid.):

- Why Khatami Withdrew: Providing background on Khatami's
withdrawal, source said that Khatami was heavily pressured to
withdraw by the Supreme Leader. This pressure came after
Khatami's three provincial campaign trips revealed his broad
support, which took a vocal and decidedly anti-regime tone at
his campaign rallies at Yasuj, Yazd, and another provincial
capital. (Such provincial populations were considered the
stronghold of Ahmadinejad's conservative support base.) Based
upon assessments of domestic political dynamics, an IRGC
internal report assessing the impact of a Khatami candidacy
concluded that Khatami would likely prevail in the first round
of the presidential elections (by getting over 50 percent of the
vote), and that the IRGC and other internal security forces
would be unable - in contrast to their successful dissent
control during Khatami's first presidency - to quell the
anti-regime sentiment this outcome would unleash. Khatami
reportedly agreed to withdraw, but with Rafsanjani's solid
support, he was able to extract a concession from the Supreme
Leader for doing so - namely, that the SL would not support
Ahmadinejad for the election.

- An Ahmadinejad Loss May Spell the End of the Supreme Leader:
Despite the deal reported above, it is still widely speculated
that the SL will support AN behind the scenes. Given that AN's
sole remaining source of senior-level support is the SL, if the
SL provides him quiet support and he loses, this contact
concluded that the SL's grip on power would be hurt enough for
Rafsanjani to step in and use his position on the Assembly of
Experts to dismiss him (and likely replace him with a leadership
council.)

- Larijani Floats Threat to Run to Ensure Brother Takes Over

Judiciary: Ali Larijani, the powerful speaker of the Majles reportedly threatened to challenge AN directly by entering the presidential race if his brother, Sadegh Larijani, is not appointed to replace Ayatollah Shahroudi once the Judiciary Chief's term expires in two months.

- Karroubi Offers Terms Upon Which He Would Withdraw: Reformist presidential candidate Mehdi Karroubi is reportedly in negotiations with reformist frontrunner Mir Hossein Moussavi to withdraw, allowing the consolidation of reformist votes, under the condition that he is able to secure four cabinet positions (reportedly to include the Ministry of Interior) for his allies.

12. (S/NF) Comment: These machinations, based upon reasonably reliable, confidential insider information, suggest significant political maneuvering underlies what now appears to be a straightforward two person race between AN and Moussavi. Such horse-trading offers some insight into why candidates without strong prospects for victory enter and remain in the race - perhaps merely to secure political concessions for themselves or key political allies. Such concessions for eventual withdrawal can only grow in value if they survive the Guardian Council vetting process.

13. (S/NF) Is the IRIG Changing its Tone on Cultural Diplomacy?: An IRPO contact with direct access to the IRIG invited IRPO Deputy Director to discuss cultural exchanges and other public diplomacy programs with Iran on April 24. The contact, who was aware of deputy director's travel to Washington for the Iran Watcher Conference and wanted to meet before his departure, said the IRIG "had no problem" with US cultural exchange programs and then offered five suggestions for expanding people-to-people contacts between the US and Iran. They were

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relaxed visa requirements, promoting partnerships between Iranian and US universities, sponsoring Iranian cultural events in the US, encouraging tourism in both countries, and finding the right partners for cultural exchange programming. Elaborating on his final suggestion, he implied that cultural exchanges may go more smoothly if the USG worked with the IRIG directly, rather than those "who are motivated by profit." Our interlocutor said that mutual understanding between people in both countries could help to resolve the political differences between the two governments. IRPO Deputy Director said the arrests of Roxana Saberi and others, like the Alaei brothers, contradicted the message of greater cooperation. On Saberi, our contact said that her case would be resolved soon, and on potential danger to participants in future exchanges, he said their security was assured. Comment: Our interlocutor was positive, except for grumbling about the difficulty in getting a visa, and the conversation was absent any rhetoric equating exchanges to "velvet revolution." If he was conveying a message on behalf of the IRIG, then it suggests a new receptiveness in Tehran to cooperation in this sphere. As the Iranians are fond of saying, however, changes in actions more than words will be necessary.

14. (C) Iran Fears Cross-Border Links Between Baloch Groups: According to an Iranian security analyst with direct access to IRGC officers, Iranian authorities are increasingly concerned that the deteriorating situation inside Pakistan could create sanctuaries for Jundullah militants and/or opportunities for direct cooperation between Jundullah and Pakistani Baloch insurgents. While instability in Afghanistan has been the norm for decades, the analyst contended, Tehran is scrambling to prepare for the possibility that Pakistan may weaken to the extent that its territorial integrity could be challenged by

separatist groups, including the Balochistan Liberation Army, with subsequent spill-over into Iran's Sistan Va Balochistan province. He noted that while the BLA has so far confined its operations to Pakistan, it is officially committed to the creation of a Greater Balochistan comprised of Baloch people now living in Pakistan, Iran and Afghanistan. The analyst asserted that the April announcement that the responsibility for fighting terrorists in the eastern part of the country was transferred from regular armed forces and police units to the IRGC is the cornerstone of Tehran's efforts to prepare for the fall-out should Pakistani insurgents feel sufficiently emboldened to attempt operational coordination with Baloch militants inside Iran. He said that IRGC officials are also determined to further enhance border security through the completion of a border wall, the digging of trenches, and the provision of better equipment to forces deployed on Iran's eastern border.

¶5. (S/NF) Prominent Human Rights Lawyer Sits Down with IRPO: The lawyer, in private practice in Tehran and Golestan, has defended human rights activists, student activists, and several banned newspapers. He said that Tehran General Prosecutor Sa'id Mortezaei is more powerful than Judiciary Chief Ayatollah Shahrudi due to his direct relationship with Supreme Leader Khamenei. He does not expect the change in judiciary chiefs this summer to change the dynamic. The lawyer approaches each of his cases differently; sometimes he will speak to the press while at other times he believes a quieter strategy is more beneficial. He said his personal relationship with Mortezaei also helps - he believes that Mortezaei respects him because he was jailed before the Revolution for political activity. Cases also depend on which organization made the initial arrest; he said being detained by the judicial police is worse than the MOIS or LEF. The lawyer has been invited by several prominent universities in the U.S. to speak on the human rights situation and was in Dubai to apply for a visa. He had no first-hand insight into Roxana Saberi or Ehsa Momeni's cases but predicted Saberi's sentence would be substantially reduced. He made the following points:

- The Iranian government is most concerned about the student movement, the women's rights movement, and the labor movement. He characterized the student movement as strong, particularly at Tehran University, Amirkabir University, and Iran University of Science and Technology and said there are links between the student movement and the labor movement.

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- The IRIG is increasing its pressure on human rights and political activists in the run-up to the presidential election but has relaxed pressure against the general population.

- Golestan province leans reformist, in part because the Friday Prayer Leader in the province, Seyyed Kazem Nourmofidi, is a reformer. Ayatollah Khomeini appointed Nourmofidi to his position in 1979.

¶6. (S/NF) Another View on the "Year of Reforming Consumption": By declaring this the "year of reforming consumption," Supreme Leader Khamenei is telling the Majles that it should consider legislation to reform Iran's subsidy programs, an Ivy-League educated professor of economics at the American University of Sharjah (please protect) told IRPO econoff in a recent meeting. In his speech the SL carefully avoided endorsing AN's subsidy reform plan, the legislation for which is still pending before the Majles, although the Majles removed funding for the plan from this year's budget. The academic contends that the SL is in favor of price increases for select items like water and

electricity, and in favor of government rationing programs, but he is opposed to the broad price liberalization and direct cash payments that are key parts of AN's proposed legislation. Khamenei favors a larger government role in reforming consumption, and not the smaller role that the cash payment plan, which would give lower-income Iranians cash to spend on goods as they choose, would prescribe. Comment: This analysis of the SL's Nowruz speech is notable both for its nuance as well as its focus on economic policy differences between SLK and AN. IRPO has previously reported on several defeats that the Majles dealt AN on economic policy, and if the academic is correct, the Nowruz speech can also be interpreted as an attack on AN's policies.

17. (S/NF) Armenian MP Comments on Politics and the Economy:

The main issue in June's presidential election will be who can better manage Iran's economy, while personal freedoms will be of secondary importance, according to Robert Beglarian, one of two representatives of the Armenian community in the Majles. Beglarian is serving his second term in the Majles, after working for many years in the Ministry of Economic Affairs. Beglarian also commented that Majles Speaker Ali Larijani has been a better manager of the Majles than former Speaker Haddad Adel, but that the current Majles is less active than the previous one. On economic issues, Beglarian thinks that the emphasis on the private sector in presidential candidate Mir Hossein Mousavi's economic program should be interpreted as an attack on the strong role of the IRGC in the economy. Beglarian asserted that the value-added tax (VAT), which spawned protests in several cities last fall, is currently being collected, and he is scheduled to give a seminar on the VAT in Esfahan. Comment: The views of a current member of the Majles are always of interest, but his assertion that the VAT is currently being collected contradicts reporting from other IRPO contacts, although some Iranian press reports have said it may be implemented later this year.

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